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# **ANNUAL REPORT 2019**

**YEAR ENDED MARCH 31, 2019**

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**ICOM INCORPORATED**

# Financial Highlights

## ICOM INCORPORATED AND SUBSIDIARIES

Years ended March 31, 2019, 2018 and 2017

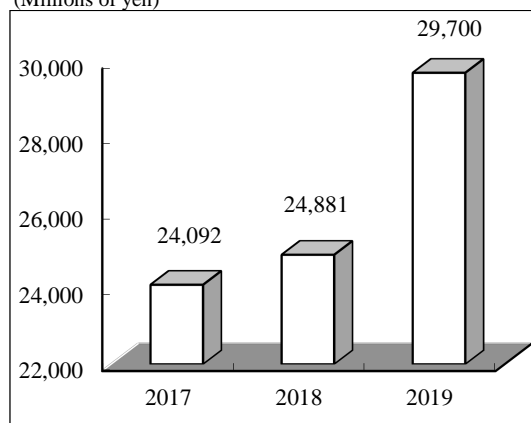
	Millions of yen			Thousands of U.S. dollars
	2019	2018	2017	2019
Net sales	¥ 29,700	¥ 24,881	¥ 24,092	\$ 267,592
Operating income	2,443	791	732	22,011
Income before income taxes	2,707	877	724	24,390
Net income	1,964	626	474	17,695
Net income attributable to owners of parent	1,964	626	474	17,695
Total assets	¥ 61,063	¥ 59,204	¥ 58,324	\$ 550,167
	Yen			U.S. dollars
Amounts per share:				
Net assets	¥ 3,732.50	¥ 3,654.65	¥ 3,625.42	\$ 33.63
Net income – basic	132.57	42.26	31.98	1.19
Cash dividends	45.00	30.00	20.00	0.41

Notes:

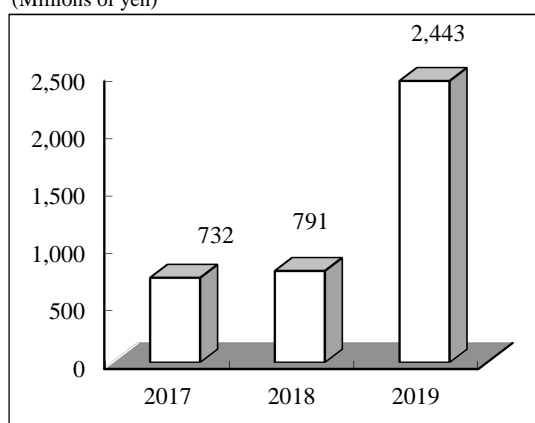
1. All dollar amounts herein refer to U.S. dollars translated from Japanese yen at ¥110.99 = U.S.\$1.00, the exchange rate prevailing on March 31, 2019.

2. Amounts shown in millions of yen and thousands of dollars are rounded off to the nearest million or thousand.

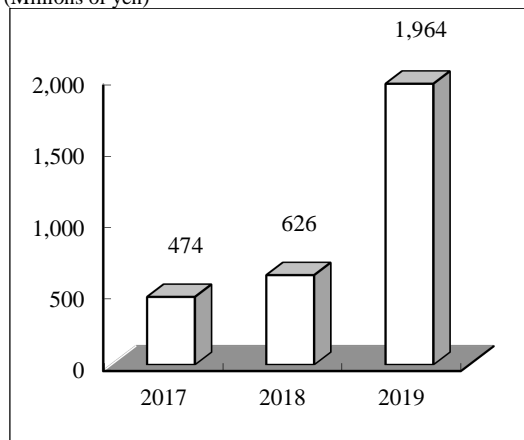
**Net Sales**  
(Millions of yen)



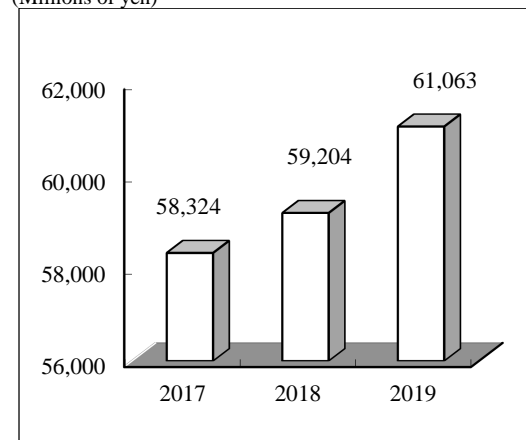
**Operating Income**  
(Millions of yen)



**Profit attributable to owners of parent**  
(Millions of yen)



**Total Assets**  
(Millions of yen)



# Operating Highlights

## GEOGRAPHICAL SEGMENT INFORMATION

Years ended March 31, 2019 and 2018

	Millions of yen				Thousands of U.S. dollars	
	Net sales		Operating income (loss)		Net sales	Operating income
	2019	2018	2019	2018	2019	2019
Japan	¥ 26,900	¥ 21,758	¥ 2,317	¥ 895	\$ 242,364	\$ 20,876
North America	7,973	7,872	74	(27)	71,836	667
Europe	1,208	1,235	59	71	10,884	532
Asia & Oceania	1,492	1,445	93	61	13,442	837
Eliminations	(7,873)	(7,429)	(100)	(209)	(70,934)	(901)
Consolidated total	¥ 29,700	¥ 24,881	¥ 2,443	¥ 791	\$ 267,592	\$ 22,011

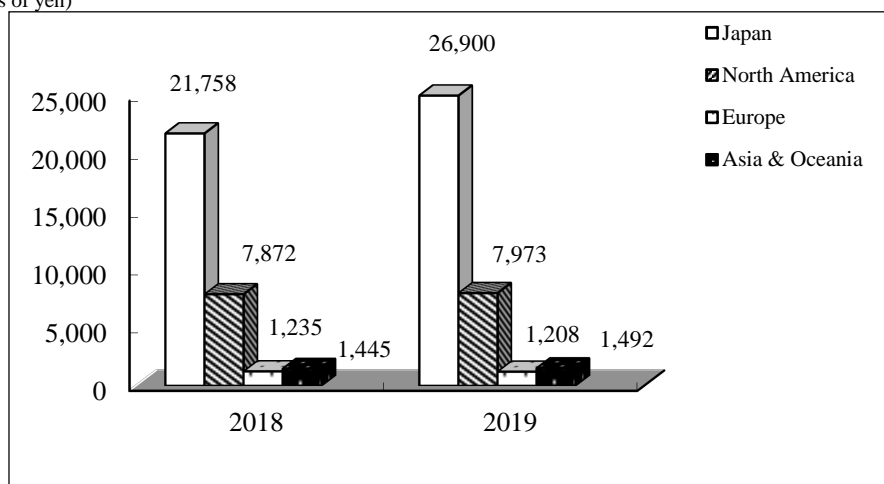
Notes:

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2. Amounts shown in millions of yen and thousands of dollars are rounded off to the nearest million or thousand.

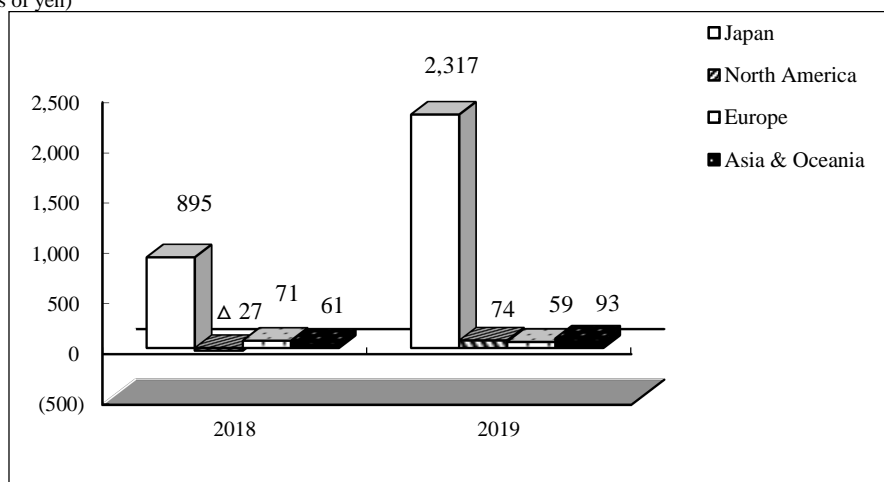
### Net Sales

(Millions of yen)



### Operating Income (Loss)

(Millions of yen)



# Operating Highlights

## OVERSEAS SALES

Years ended March 31, 2019 and 2018

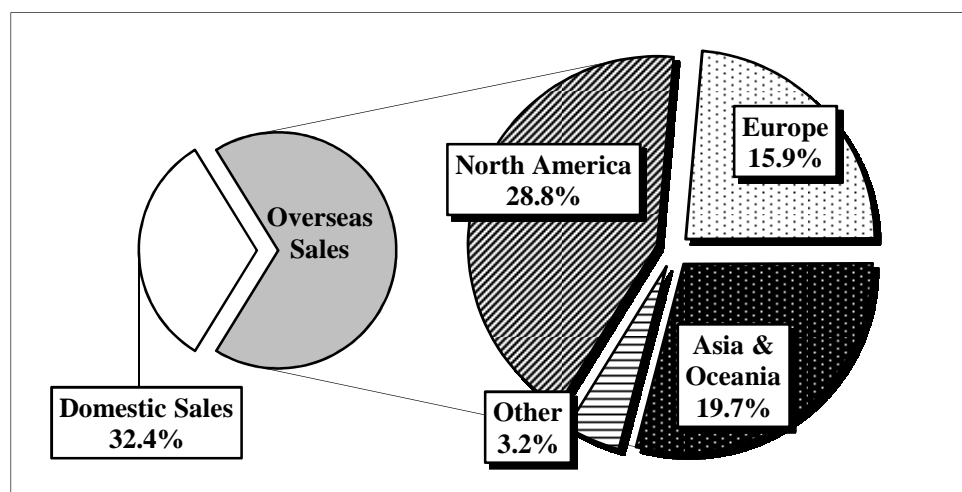
	Millions of yen				Thousands of U.S. dollars	
	2019 (Unaudited)		2018		2019 (Unaudited)	
North America	¥ 7,382	24.9%	¥ 7,154	28.8%	\$ 66,510	
Europe	3,743	12.6	3,969	15.9	33,724	
Asia & Oceania	4,639	15.6	4,904	19.7	41,797	
Other	565	1.9	795	3.2	5,091	
Overseas total	16,329	55.0	16,822	67.6	147,122	
Domestic total	13,371	45.0	8,059	32.4	120,470	
Consolidated total	¥ 29,700	100.0%	¥ 24,881	100.0%	\$ 267,592	

Notes:

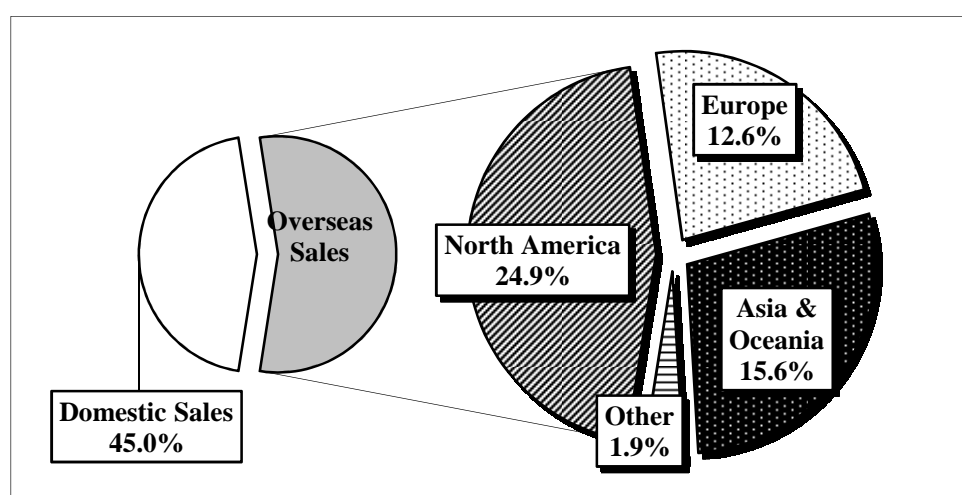
1. All dollar amounts herein refer to U.S. dollars translated from Japanese yen at ¥110.99 = U.S.\$1.00, the exchange rate prevailing on March 31, 2019.

2. Amounts shown in millions of yen and thousands of dollars are rounded off to the nearest million or thousand.

### Net Sales 2018



### Net Sales 2019



# ICOM INCORPORATED AND SUBSIDIARIES

## Consolidated Balance Sheet

March 31, 2019

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 1)</i>
<b>Assets</b>	<b>2019</b>	<b>2018</b>	<b>2019</b>
<b>Current assets:</b>			
Cash and deposits ( <i>Notes 5, 7 and 13</i> )	¥ 25,466	¥ 30,442	\$ 229,444
Notes and accounts receivable ( <i>Notes 6 and 7</i> )	9,188	5,098	82,782
Allowance for doubtful accounts	(14)	(19)	(126)
	<u>9,174</u>	<u>5,079</u>	<u>82,656</u>
Inventories ( <i>Note 9</i> )	9,325	6,965	84,017
Other current assets	2,262	2,529	20,380
Total current assets	<u>46,227</u>	<u>45,015</u>	<u>416,497</u>
 <b>Property, plant and equipment:</b>			
Land	4,141	4,133	37,310
Buildings and structures	6,793	6,759	61,204
Machinery and equipment	13,294	12,491	119,777
Vehicles and other	217	203	1,955
Construction in progress	40	12	360
Property, plant and equipment, at cost	<u>24,485</u>	<u>23,598</u>	<u>220,606</u>
Less accumulated depreciation	(16,888)	(16,437)	(152,158)
Property, plant and equipment, net ( <i>Note 17</i> )	<u>7,597</u>	<u>7,161</u>	<u>68,448</u>
 <b>Investments and other assets:</b>			
Investments in securities ( <i>Notes 7 and 8</i> )			
Investments in affiliates	132	74	1,189
Other	3,289	3,299	29,633
Other investments	2,610	2,663	23,516
Deferred income taxes ( <i>Notes 4 and 11</i> )	1,002	922	9,028
Intangible assets ( <i>Note 17</i> )	260	125	2,343
Allowance for doubtful accounts	(54)	(55)	(487)
Total investments and other assets	<u>7,239</u>	<u>7,028</u>	<u>65,222</u>
<b>Total assets (<i>Note 17</i>)</b>	<u>¥ 61,063</u>	<u>¥ 59,204</u>	<u>\$ 550,167</u>

See accompanying Notes to consolidated financial statements.

ICOM INCORPORATED AND SUBSIDIARIES

# Consolidated Balance Sheet

March 31, 2019

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 1)</i>
	<b>2019</b>	2018	<b>2019</b>
<b>Liabilities and net assets</b>			
<b>Current liabilities:</b>			
Accounts payable - trade (Note 7)	¥ 1,095	¥ 1,409	\$ 9,866
Accounts payable - other	614	585	5,532
Accrued income taxes (Note 11)	587	376	5,289
Accrued expenses	625	572	5,631
Accrued bonuses	788	445	7,100
Warranty reserves	50	52	450
Other current liabilities	353	115	3,180
Total current liabilities	<u>4,112</u>	<u>3,554</u>	<u>37,048</u>
<b>Long-term liabilities:</b>			
Liability for retirement benefits (Note 10)	1,122	936	10,109
Other long-term liabilities	525	562	4,730
Total long-term liabilities	<u>1,647</u>	<u>1,498</u>	<u>14,839</u>
<b>Net assets:</b>			
Shareholders' equity (Note 12):			
Common stock:			
Authorized – 34,000,000 shares;			
Issued – 14,850,000 shares in 2019 and 2018	7,081	7,081	63,799
Capital surplus	10,449	10,449	94,144
Retained earnings (Note 19)	37,888	36,516	341,363
Less treasury stock, at cost:			
32,938 shares in 2019 and 32,543 shares in 2018	(106)	(105)	(955)
Total shareholders' equity	<u>55,312</u>	<u>53,941</u>	<u>498,351</u>
Accumulated other comprehensive (loss) income (Note 15):			
Net unrealized holding gain on securities (Note 8)	33	104	298
Translation adjustments	187	145	1,685
Retirement benefit liability adjustments (Note 10)	(228)	(38)	(2,054)
Total accumulated other comprehensive (loss) income	<u>(8)</u>	<u>211</u>	<u>(71)</u>
Total net assets	<u>55,304</u>	<u>54,152</u>	<u>498,280</u>
<b>Total liabilities and net assets</b>	<u>¥ 61,063</u>	<u>¥ 59,204</u>	<u>\$ 550,167</u>

See accompanying Notes to consolidated financial statements.

ICOM INCORPORATED AND SUBSIDIARIES

# Consolidated Statement of Income

Year ended March 31, 2019

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 1)</i>
	<b>2019</b>	2018	<b>2019</b>
<b>Net sales (Note 17)</b>	<b>¥ 29,700</b>	¥ 24,881	<b>\$ 267,592</b>
<b>Cost of sales (Notes 9 and 17)</b>	<b>16,915</b>	14,366	<b>152,401</b>
Gross profit	<b>12,785</b>	10,515	<b>115,191</b>
<b>Selling, general and administrative expenses (Notes 14 and 17)</b>	<b>10,342</b>	9,724	<b>93,180</b>
Operating income (Note 17)	<b>2,443</b>	791	<b>22,011</b>
<b>Other income (expenses):</b>			
Interest and dividend income	<b>125</b>	103	<b>1,126</b>
Gain on sales of investment in securities, net (Note 8)	<b>12</b>	21	<b>108</b>
Foreign exchange gain, net	<b>166</b>	104	<b>1,496</b>
Gain on sales of property, plant and equipment	—	3	—
Sales discounts	<b>(137)</b>	(160)	<b>(1,234)</b>
Other, net	<b>98</b>	15	<b>883</b>
	<b>264</b>	86	<b>2,379</b>
Profit before income taxes	<b>2,707</b>	877	<b>24,390</b>
<b>Income taxes (Note 11):</b>			
Current	<b>708</b>	416	<b>6,379</b>
Deferred	<b>35</b>	(165)	<b>316</b>
	<b>743</b>	251	<b>6,695</b>
<b>Profit</b>	<b>¥ 1,964</b>	¥ 626	<b>\$ 17,695</b>
<b>Profit attributable to owners of parent (Note 16)</b>	<b>¥ 1,964</b>	¥ 626	<b>\$ 17,695</b>

See accompanying Notes to consolidated financial statements.

*ICOM INCORPORATED AND SUBSIDIARIES*  
**Consolidated Statement of  
Comprehensive Income**

Year ended March 31, 2019

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 1)</i>
	<b>2019</b>	2018	<b>2019</b>
<b>Profit</b>	<b>¥ 1,964</b>	¥ 626	<b>\$ 17,695</b>
<b>Other comprehensive income (Note 15):</b>			
Net unrealized holding loss (gain) on securities	(71)	82	(640)
Translation adjustments	42	(193)	379
Retirement benefit liability adjustments	(190)	214	(1,712)
Total other comprehensive (loss) income	(219)	103	(1,973)
<b>Comprehensive income</b>	<b>¥ 1,745</b>	¥ 729	<b>\$ 15,722</b>
<b>Total comprehensive income attributable to: Owners of parent</b>	<b>¥ 1,745</b>	¥ 729	<b>\$ 15,722</b>

*See accompanying Notes to consolidated financial statements.*



*ICOM INCORPORATED AND SUBSIDIARIES*

# Consolidated Statement of Changes in Net Assets

Year ended March 31, 2019

*Millions of yen*

	Number of shares in issue	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized holding gain on securities	Translation adjustments	Retirement benefit liability adjustments	Total net assets
Balance at April 1, 2017	14,850,000	¥ 7,081	¥ 10,449	¥ 36,187	¥ (104)	¥ 22	¥ 338	¥ (252)	¥ 53,721
Profit attributable to owners of parent for the year	—	—	—	626	—	—	—	—	626
Cash dividends	—	—	—	(297)	—	—	—	—	(297)
Purchases of treasury stock	—	—	—	—	(1)	—	—	—	(1)
Other changes	—	—	—	—	—	82	(193)	214	103
Balance at April 1, 2018	14,850,000	¥ 7,081	¥ 10,449	¥ 36,516	¥ (105)	¥ 104	¥ 145	¥ (38)	¥ 54,152
Profit attributable to owners of parent for the year	—	—	—	1,964	—	—	—	—	1,964
Cash dividends	—	—	—	(592)	—	—	—	—	(592)
Purchases of treasury stock	—	—	—	—	(1)	—	—	—	(1)
Other changes	—	—	—	—	—	(71)	42	(190)	(219)
Balance at March 31, 2019	14,850,000	¥ 7,081	¥ 10,449	¥ 37,888	¥ (106)	¥ 33	¥ 187	¥ (228)	¥ 55,304

*Thousands of U.S. dollars (Note 1)*

	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized holding gain on securities	Translation adjustments	Retirement benefit liability adjustments	Total net assets
Balance at April 1, 2018	\$ 63,799	\$ 94,144	\$ 329,003	\$ (946)	\$ 937	\$ 1,306	\$ (342)	\$ 487,901
Profit attributable to owners of parent for the year	—	—	17,695	—	—	—	—	17,695
Cash dividends	—	—	(5,335)	—	—	—	—	(5,335)
Purchases of treasury stock	—	—	—	(9)	—	—	—	(9)
Other changes	—	—	—	—	(639)	379	(1,712)	(1,972)
Balance at March 31, 2019	\$ 63,799	\$ 94,144	\$ 341,363	\$ (955)	\$ 298	\$ 1,685	\$ (2,054)	\$ 498,280

See accompanying Notes to consolidated financial statements.

*ICOM INCORPORATED AND SUBSIDIARIES*

# Consolidated Statement of Cash Flows

Year ended March 31, 2019

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 1)</i>
	<b>2019</b>	2018	<b>2019</b>
<b>Operating activities:</b>			
Profit before income taxes	¥ 2,707	¥ 877	\$ 24,390
Adjustments for:			
Depreciation and amortization	1,021	935	9,199
Interest and dividend income	(125)	(103)	(1,126)
Foreign exchange loss, net	10	51	90
Increase in notes and accounts receivable	(4,047)	(478)	(36,463)
Increase in inventories	(2,299)	(641)	(20,714)
(Decrease) increase in accounts payable - trade	(381)	335	(3,433)
Other, net	705	86	6,352
Subtotal	(2,409)	1,062	(21,705)
Income taxes paid	(500)	(4)	(4,505)
<b>Net cash (used in) provided by operating activities</b>	<b>(2,909)</b>	<b>1,058</b>	<b>(26,210)</b>
<b>Investing activities:</b>			
Decrease (increase) in time deposits with original maturities in excess of three months	4	(79)	36
Redemption of marketable securities	—	301	—
Purchases of property, plant and equipment	(1,275)	(660)	(11,488)
Purchases of intangible assets	(222)	(57)	(2,000)
Purchases of investments in securities	(349)	(844)	(3,144)
Proceeds from sales and redemption of investments in securities	258	465	2,325
Interest and dividend income received	130	111	1,171
Other, net	(10)	(591)	(90)
<b>Net cash used in investing activities</b>	<b>(1,464)</b>	<b>(1,354)</b>	<b>(13,190)</b>
<b>Financing activities:</b>			
Purchases of treasury stock	(1)	(1)	(9)
Cash dividends paid	(592)	(297)	(5,335)
<b>Net cash used in financing activities</b>	<b>(593)</b>	<b>(298)</b>	<b>(5,344)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>23</b>	<b>(98)</b>	<b>209</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(4,943)</b>	<b>(692)</b>	<b>(44,535)</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>28,319</b>	<b>29,011</b>	<b>255,149</b>
<b>Cash and cash equivalents at end of year (Note 4)</b>	<b>¥ 23,376</b>	<b>¥ 28,319</b>	<b>\$ 210,614</b>

See accompanying Notes to consolidated financial statements.

*ICOM INCORPORATED AND SUBSIDIARIES*

# Notes to Consolidated Financial Statements

March 31, 2019

## 1. Basis of Preparation

The accompanying consolidated financial statements of ICOM INCORPORATED (the “Company”) and its subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and have been compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made to the consolidated financial statements issued domestically for the convenience of readers outside Japan. Certain reclassifications of previously reported amounts have been made to conform the consolidated financial statements for the year ended March 31, 2018 to the 2019 presentation. Such reclassifications had no effect on consolidated net income.

In addition, the notes to the consolidated financial statements include certain information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

The translation of yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan, as a matter of arithmetic computation only, and has been made at ¥110.99 = U.S.\$1.00, the approximate rate of exchange in effect on March 31, 2019. This translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

## 2. Summary of Significant Accounting Policies

### (a) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and the companies which it controls directly or indirectly. Two companies over which the Company exercises significant influence in terms of their operating and financial policies have been included in the accompanying consolidated financial statements on an equity basis.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized intercompany gains and losses among the Company and the subsidiaries have been entirely eliminated.

The financial statements of certain consolidated subsidiary whose fiscal year end is December 31 has been included in consolidation on the basis of a full fiscal year closing on March 31 for consolidation purposes.

### (b) Cash and cash equivalents

For purposes of the consolidated statements of cash flows, cash and cash equivalents consist of cash on hand, deposits with banks withdrawable on demand, and short-term investments which are readily convertible to cash subject to an insignificant risk of any changes in their value and which were purchased with an original maturity of three months or less.

### (c) Foreign currency translation

The balance sheet accounts of the overseas subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date except that the components of net assets are translated at their historical exchange rates. Adjustments resulting from translating accounts denominated in foreign currencies are not included in the determination of profit in the accompanying consolidated financial statements, but are reported as “Translation adjustments,” a component of net assets.

Revenue and expense accounts are translated at the average rates of exchange in effect during the year.

All monetary assets and liabilities denominated in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date, except that receivables hedged by qualified forward foreign exchange contracts are translated at the corresponding contract rates. Gain or loss on each translation is credited or charged to income.

### (d) Marketable securities and investments in securities

In general, securities are classified into three categories: trading securities, held-to-maturity debt securities or other securities. Trading securities, consisting of debt and marketable equity securities, are stated at fair value. Gain or loss, both realized and unrealized, are credited or charged to income. Held-to-maturity debt securities are stated at their amortized cost. Marketable securities classified as other securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, reported as a separate component of net assets. Non-marketable securities classified as other securities are carried at cost determined by the moving average method.

Securities held by the Company and its subsidiaries including investments in securities, which are not accounted for on an equity basis, are all classified as “other securities” and have been accounted for as outlined above.

*ICOM INCORPORATED AND SUBSIDIARIES*

# Notes to Consolidated Financial Statements

## 2. Summary of Significant Accounting Policies (continued)

### (e) Inventories

Inventories are mainly stated at the lower of cost or net selling value, cost being determined by the moving average method, except for goods held by certain overseas subsidiaries which are valued at the lower of cost or market, cost being determined by the moving average method.

### (f) Property, plant and equipment (except for leased assets)

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment in the Company and its domestic subsidiaries is computed principally by the declining-balance method over the estimated useful lives of the respective assets as prescribed in the Corporation Tax Law of Japan, except that the straight-line method is applied to buildings (other than structures attached to the buildings) acquired on or after April 1, 1998 and structures attached to buildings and other structures acquired on or after April 1, 2016. The overseas consolidated subsidiaries calculate depreciation by the straight-line method.

### (g) Intangible assets (except for leased assets)

Amortization of intangible assets is calculated by the straight-line method over the estimated useful lives of the respective assets as prescribed in the Corporation Tax Law of Japan. Expenditures related to the development of computer software intended for internal use are charged to income when incurred, except if it is anticipated that this software will contribute to the generation of income or to future cost savings. Such expenditures are capitalized as assets and amortized by the straight-line method over an estimated useful life of 3 or 5 years.

### (h) Leased assets

Leased assets are depreciated by the straight-line method over respective lease periods with no residual value.

### (i) Allowance for doubtful accounts

The allowance for doubtful accounts is computed based on the historical ratio of bad debts and an estimate of certain uncollectible amounts determined after an analysis of specific individual receivables.

### (j) Accrued bonuses

Accrued bonuses are calculated based on the estimated amount to be paid to employees after the balance sheet date, which are attributable to the current fiscal year.

### (k) Warranty reserves

Warranty reserves for certain overseas subsidiaries are provided for anticipated future repair costs based on the historical ratio calculated using product repair costs against net sales, which are attributable to the current fiscal year.

### (l) Liability for retirement benefits

Liability for retirement benefits is provided mainly at an amount calculated based on the retirement benefit obligation less the fair value of the pension plan assets. The retirement benefit obligation is attributed to each period by the straight-line method over the estimated remaining years of service of the eligible employees.

Actuarial gain or loss is being amortized in the year following the year in which the gain or loss is recognized by the straight-line method over ten years, which is within the average remaining years of service of eligible employees.

*ICOM INCORPORATED AND SUBSIDIARIES*

# Notes to Consolidated Financial Statements

## 2. Summary of Significant Accounting Policies (continued)

### (m) Hedge accounting

The Company utilizes derivative transactions in order to manage the risks arising from adverse fluctuation in foreign currency exchange rates. In accordance with internal management rules, the Company enters into forward foreign exchange contracts which fall within the Company's foreign currency or foreign currency receivables holding limits. Derivative transactions are not entered into for speculative purposes.

Under the accounting standard for financial instruments, gain or loss on derivatives designated as hedging instruments is deferred until the loss or gain on the underlying hedged items is recognized. Forward foreign exchange contracts which meet certain conditions are accounted for by a method under which the foreign currency deposits and receivables are translated at their corresponding forward foreign exchange contract rates ("Allocation method.")

The evaluation of effectiveness of such forward foreign exchange contracts is omitted because significant terms of the hedging instruments and underlying hedged items are the same and the Company assumes that movements in cash flows are completely offset.

### (n) Distribution of retained earnings

Under the Companies Act of Japan and the Company's Articles of Incorporation, the distribution of retained earnings with respect to a given fiscal year end is made by resolution of the shareholders at a general meeting held subsequent to the close of the financial period. The distribution of retained earnings with respect to interim financial periods is made by resolution of the Board of Directors. (Please refer to Note 18.)

## 3. Accounting standards issued but not yet effective

### Accounting Standard and Implementation Guidance for Revenue Recognition

#### (i) Overview

On March 30, 2018, the Accounting Standards Board of Japan (hereinafter referred to as the "ASBJ") issued "Accounting Standard for Revenue Recognition" (ASBJ Statement No.29) and "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No.30). The International Accounting Standards Board (hereinafter referred to as the "IASB") and the Financial Accounting Standards Board (hereinafter referred to as the "FASB") in the United States co-developed comprehensive accounting standards for revenue recognition and issued "Revenue from Contracts with Customers" (IFRS 15 by the IASB and Topic 606 by the FASB) in May 2014. The ASBJ developed comprehensive accounting standards on revenue recognition and issued them in conjunction with the implementation guidance based on fact that IFRS 15 was applied from fiscal years starting on or after January 1, 2018 and Topic 606 was applied from fiscal years starting after December 15, 2017.

As the basic policy in developing accounting standards for revenue recognition, the ASBJ defined the accounting standard starting with incorporating the basic principles of IFRS 15 from a standpoint of comparability between financial statements, which is one benefit of ensuring consistency with IFRS 15. Furthermore, the ASBJ added alternative accounting treatment without impairing comparability when there are matters to be considered related to accounting practices, etc. common in Japan.

#### (ii) Scheduled date of adoption

The Company expects to adopt the accounting standard and implementation guidance from the beginning of the fiscal year ending March 31, 2022.

#### (iii) Impact of the adoption of accounting standard and implementation guidance

The Company is currently evaluating the effect of the adoption of the accounting standard and the implementation guidance on its consolidated financial statements.

*ICOM INCORPORATED AND SUBSIDIARIES*

# Notes to Consolidated Financial Statements

## 4. Changes in Presentation

### Partial Amendments to Accounting Standard for Tax Effect Accounting

Effective April 1, 2018, “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No.28 issued on February 16) has been adopted.

Under ASBJ Statement No. 28, deferred income taxes, which were previously classified under current assets and current liabilities, are classified under investments and other assets and long-term liabilities, respectively.

As a result, ¥493 million of ¥512 million of deferred income taxes, which was previously presented under current assets, is included in deferred income taxes under investments and other assets. In addition, ¥18 million of that was offset with deferred income taxes under long-term liabilities.

As a result of offsetting deferred tax assets and deferred tax liabilities of the same taxable entity, total assets decreased by ¥18 million (\$162 thousand) compared with the previously reported amount.

## 5. Cash and Cash Equivalents

In the preparation of the consolidated statements of cash flows, the relationship between the items included in cash and cash equivalents and the corresponding amounts reflected in the consolidated balance sheets at March 31, 2019 and 2018 is summarized as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>2019</b>	2018	<b>2019</b>
Cash and deposits	<b>¥ 25,466</b>	¥ 30,442	<b>\$ 229,444</b>
Marketable securities	—	—	—
Subtotal	<b>¥ 25,466</b>	¥ 30,442	<b>\$ 229,444</b>
Time deposits with original maturities in excess of three months	<b>(2,090)</b>	(2,123)	<b>(18,830)</b>
Marketable securities with original maturities in excess of three months	—	—	—
Cash and cash equivalents	<b>¥ 23,376</b>	¥ 28,319	<b>\$ 210,614</b>

## 6. Notes Receivable Maturing on March 31, 2019

March 31, 2019, the end of the period, was a bank holiday. Notes receivable maturing on the day were settled on the following business day. Therefore, notes in the amount of ¥4 million (\$36 thousand) were included in the ending balance at March 31, 2019.

*ICOM INCORPORATED AND SUBSIDIARIES*

# Notes to Consolidated Financial Statements

## 7. Financial Instruments

### (1) General information

#### i) Policy for financial instruments

In consideration of plans for capital investment, which is mainly centered on radio manufacturing and sales, the Company and its consolidated subsidiaries (“Group”) obtains necessary financing through its own funds. The Group manages surplus funds through financial assets that have high levels of liquidity. The Group uses derivatives for the purpose of reducing risk and does not enter into derivatives for speculative or trading purposes.

#### ii) Types of financial instruments and related risk

Notes and accounts receivable are exposed to credit risk in relation to customers. In addition, the Group is exposed to foreign currency exchange rate fluctuation risk arising from trade receivables denominated in foreign currencies.

Marketable securities and investments in securities are exposed to market risk. Those securities are composed of mainly corporate bonds in other securities and the shares of common stock of other companies with which it has business relationships. Fair values of those securities are periodically reviewed and reported to board of directors meetings.

Most of trade accounts payable have payment due dates within two months. The Group is exposed to foreign currency exchange rate fluctuation risk arising from those denominated in foreign currencies.

Regarding derivatives, the Group enters into forward foreign exchange contracts to reduce the foreign currency exchange rate fluctuation risk arising from cash and deposits and receivables denominated in foreign currencies, and utilizes compound financial instruments for the purpose of efficient management of surplus funds. Further information regarding the method of hedge accounting, hedging instruments and hedged items, hedging policy, and the assessment of the effectiveness of hedging activities can be found in “(m) Hedge accounting” in Note 2 “Summary of Significant Accounting Policies”.

#### iii) Risk management for financial instruments

##### (a) Monitoring of credit risk (the risk that customers or counterparties may default)

In accordance with the internal policies for managing credit risk of the Group arising from trade receivables, the credit department monitors credit worthiness of main customers periodically, in principle, and monitors due dates and outstanding balances by customer. In addition, the Group is making efforts to identify and mitigate risks of bad debt from customers who have financial difficulties.

In accordance with the internal policies for security management, the Group only acquires corporate bonds or other securities with high credit ratings. Accordingly, the Group believes that the credit risk deriving from such debt securities is insignificant.

The Group also believes that the credit risk of derivatives is insignificant as the Group enters into derivative transactions only with financial institutions with high credit ratings.

##### (b) Monitoring of market risks (the risks arising from fluctuations in foreign exchange rates, interest rates and others)

For cash and deposits denominated in foreign currencies, in principle, for a portion of receivables denominated in foreign currencies, the Group identifies the foreign currency exchange risk by each currency and enters into forward foreign exchange contracts to hedge such risk.

For marketable securities and investments in securities, the Group periodically reviews the fair values of such financial instruments and the financial position of the issuers. In addition, the Group continuously evaluates whether securities should be maintained taking into account their fair values and the relationships with the issuers.

For derivative transactions, the accounting department of the Company enters into and manages transactions, and a representative director, in advance, approves them within the limits reported at the Board of Directors meeting. Results of derivative transactions are reported at the monthly Board of Directors meetings. The consolidated subsidiaries do not enter into derivative transactions.

##### (c) Monitoring of liquidity risk (the risk that the Group may not be able to meet its obligations on the scheduled due dates)

Based on reports from each division, the accounting department of the Company prepares and updates its cash flow plans on a timely basis and maintains liquidity of assets for payment to manage liquidity risk. The consolidated subsidiaries monitor liquidity risk in the same manner.

ICOM INCORPORATED AND SUBSIDIARIES

# Notes to Consolidated Financial Statements

## 7. Financial Instruments (continued)

### (1) General information (continued)

#### iv) Supplementary explanation of the estimated fair value of financial instruments

The fair value of financial instruments is based on their quoted market price, if available. When there is no quoted market price available, fair value is reasonably estimated. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in different fair values. In addition, the notional amounts of derivatives in Note 13. "Derivatives and Hedging Activities" are not necessarily indicative of the actual market risk involved in derivative transactions.

### (2) Estimated fair value of financial instruments

The carrying value, fair value and unrealized gain (loss) of the financial instruments on the consolidated balance sheets at March 31, 2019 and 2018 are shown in the following table. The following table does not include financial instruments for which it is extremely difficult to determine the fair value. (Please refer to Note ii below).

		<i>Millions of yen</i>					
		2019			2018		
		Carrying value	Fair value	Unrealized gain (loss)	Carrying value	Fair value	Unrealized gain (loss)
<b>Assets</b>							
(1)	Cash and deposits	¥ 25,466	¥ 25,466	¥ –	¥ 30,442	¥ 30,442	¥ –
(2)	Notes and accounts receivable	9,188	9,188	–	5,098	5,098	–
(3)	Marketable securities and investments in securities	3,227	3,227	–	3,237	3,237	–
	Total assets	¥ 37,881	¥ 37,881	¥ –	¥ 38,777	¥ 38,777	¥ –
<b>Liabilities</b>							
(1)	Accounts payable - trade	¥ 1,095	¥ 1,095	¥ –	¥ 1,409	¥ 1,409	¥ –
	Total liabilities	¥ 1,095	¥ 1,095	¥ –	¥ 1,409	¥ 1,409	¥ –

		<i>Thousands of U.S. dollars</i>		
		2019		
		Carrying value	Fair value	Unrealized gain (loss)
<b>Assets</b>				
(1)	Cash and deposits	\$ 229,444	\$ 229,444	\$ –
(2)	Notes and accounts receivable	82,782	82,782	–
(3)	Marketable securities and investments in securities	29,084	29,084	–
	Total assets	\$ 341,310	\$ 341,310	\$ –
<b>Liabilities</b>				
(1)	Accounts payable - trade	\$ 9,866	\$ 9,866	\$ –
	Total liabilities	\$ 9,866	\$ 9,866	\$ –



*ICOM INCORPORATED AND SUBSIDIARIES*

# Notes to Consolidated Financial Statements

## 7. Financial Instruments (continued)

### (2) Estimated fair value of financial instruments (continued)

**Notes:**

**i) Methods to determine the fair value of financial instruments are as follows:**

Assets

(1) Cash and deposits, and (2) Notes and accounts receivable

Since these items are settled in a short period of time, their carrying value approximate the fair value.

(3) Marketable securities and investments in securities

The fair value of equity securities is based on quoted market prices. The fair value of debt securities is based on either quoted market prices or the prices provided by the financial institutions making markets for these securities. For information on securities classified by holding purpose, please refer to Note 8.

Liabilities

(1) Accounts payable - trade

Since this item is settled in a short period of time, its carrying value approximates the fair value.

**ii) Financial instruments for which it is extremely difficult to determine the fair value are as follows:**

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>2019</b>	<b>2018</b>	<b>2019</b>
Unlisted equity securities	¥ <b>194</b>	¥ 136	\$ <b>1,747</b>

Since there is no market price for unlisted equity securities and it is difficult to determine the fair value, they are not included in investments in securities in the preceding table estimated fair value.

*ICOM INCORPORATED AND SUBSIDIARIES*

# Notes to Consolidated Financial Statements

## 7. Financial Instruments (continued)

### (3) Redemption schedule

The redemption schedule for financial instruments receivable and marketable securities and investments in securities with maturity dates is summarized as follows:

<i>Millions of yen</i>									
<b>2019</b>					<b>2018</b>				
	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years		Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and deposits	¥ 25,466	¥ –	¥ –	¥ –		¥ 30,442	¥ –	¥ –	¥ –
Notes and accounts receivable	9,188	–	–	–		5,098	–	–	–
Marketable securities and investments in securities:									
Other securities with maturity dates									
Corporate bonds	–	300	1,500	1,000		–	400	1,300	1,000
Other	–	–	–	–		–	–	–	–
<b>Total</b>	<b>¥ 34,654</b>	<b>¥ 300</b>	<b>¥ 1,500</b>	<b>¥ 1,000</b>		<b>¥ 35,540</b>	<b>¥ 400</b>	<b>¥ 1,300</b>	<b>¥ 1,000</b>

<i>Thousands of U.S. dollars</i>				
<b>2019</b>				
	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and deposits	\$ 229,444	\$ –	\$ –	\$ –
Notes and accounts receivable	82,782	–	–	–
Marketable securities and investments in securities:				
Other securities with maturity dates				
Corporate bonds	–	2,703	13,515	9,010
Other	–	–	–	–
<b>Total</b>	<b>\$ 312,226</b>	<b>\$ 2,703</b>	<b>\$ 13,515</b>	<b>\$ 9,010</b>

*ICOM INCORPORATED AND SUBSIDIARIES*

# Notes to Consolidated Financial Statements

## 8. Marketable Securities and Investments in Securities

Marketable securities and investments in securities classified as other securities at March 31, 2019 and 2018 are summarized as follows:

<i>Millions of yen</i>						
	<b>2019</b>			<b>2018</b>		
	Carrying value	Acquisition cost	Unrealized gain (loss)	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:						
Equity securities	¥ 151	¥ 136	¥ 15	¥ 221	¥ 136	¥ 85
Corporate bonds	2,434	2,352	82	1,826	1,755	71
Subtotal	2,585	2,488	97	2,047	1,891	156
Securities whose carrying value does not exceed their acquisition cost:						
Equity securities	136	180	(44)	180	180	–
Corporate bonds	506	507	(1)	1,010	1,013	(3)
Subtotal	642	687	(45)	1,190	1,193	(3)
Total	¥ 3,227	¥ 3,175	¥ 52	¥ 3,237	¥ 3,084	¥ 153

<i>Thousands of U.S. dollars</i>			
	<b>2019</b>		
	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Equity securities	\$ 1,360	\$ 1,225	\$ 135
Corporate bonds	21,930	21,191	739
Subtotal	23,290	22,416	874
Securities whose carrying value does not exceed their acquisition cost:			
Equity securities	1,226	1,622	(396)
Corporate bonds	4,559	4,568	(9)
Subtotal	5,785	6,190	(405)
Total	\$ 29,075	\$ 28,606	\$ 469

Since there is no market price for unlisted equity securities and it is difficult to determine the fair value, unlisted equity securities of ¥194 million (\$1,747 thousand) and ¥136 million at March 31, 2019 and 2018, respectively, are not included in the above table.

Sales of other securities for the years ended March 31, 2019 and 2018 are summarized as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>2019</b>	<b>2018</b>	<b>2019</b>
Sales	¥ 260	¥ 64	\$ 2,343
Aggregate gain	13	23	117
Aggregate loss	1	–	9

# ICOM INCORPORATED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

### 9. Inventories

Inventories at March 31, 2019 and 2018 consisted of the following:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>2019</b>	<b>2018</b>	<b>2019</b>
Merchandise and finished products	¥ <b>4,887</b>	¥ 2,862	\$ <b>44,031</b>
Work in process	<b>110</b>	77	<b>991</b>
Raw materials and supplies	<b>4,328</b>	4,026	<b>38,995</b>
Total	¥ <b>9,325</b>	¥ 6,965	\$ <b>84,017</b>

Cost of sales included loss on devaluation of inventories of ¥147 million (\$1,324 thousand) and ¥98 million for the years ended March 31, 2019 and 2018, respectively.

### 10. Retirement Benefits Plans

#### (1) Outline of retirement benefits for employees

The Company and its domestic subsidiaries have employees' defined benefit plans, i.e., corporate pension plans and lump-sum payment plans.

The Company and its domestic subsidiaries pay additional retirement benefits to employees under certain circumstances.

Certain consolidated subsidiaries calculate the liability for retirement benefits based on the simplified method. Under the simplified method retirement benefit obligation has been calculated based on the amount which would be payable at the year end if all eligible employees terminated their services voluntarily.

#### (2) Liability for retirement benefits for the years ended March 31, 2019 and 2018

##### i) The changes in retirement benefit obligation are outlined as follows (except for retirement benefit obligation calculated by simplified method):

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>2019</b>	<b>2018</b>	<b>2019</b>
Retirement benefit obligation at beginning of year	¥ <b>5,756</b>	¥ 5,583	\$ <b>51,861</b>
Service cost	<b>216</b>	230	<b>1,946</b>
Interest cost	<b>48</b>	46	<b>432</b>
Actuarial loss (gain)	<b>281</b>	(25)	<b>2,532</b>
Retirement benefits paid	<b>(70)</b>	(78)	<b>(631)</b>
Retirement benefit obligation at end of year	¥ <b>6,231</b>	¥ 5,756	\$ <b>56,140</b>

##### ii) The changes in plan assets at fair value are outlined as follows (except for retirement benefit obligation calculated by simplified method):

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>2019</b>	<b>2018</b>	<b>2019</b>
Plan assets at fair value at beginning of year	¥ <b>5,229</b>	¥ 4,687	\$ <b>47,112</b>
Expected return on plan assets	<b>65</b>	68	<b>586</b>
Actuarial gain	<b>18</b>	241	<b>162</b>
Contributions by the employer	<b>308</b>	311	<b>2,775</b>
Retirement benefits paid	<b>(70)</b>	(78)	<b>(631)</b>
Plan assets at fair value at end of year	¥ <b>5,550</b>	¥ 5,229	\$ <b>50,004</b>

*ICOM INCORPORATED AND SUBSIDIARIES*

# Notes to Consolidated Financial Statements

## 10. Retirement Benefits Plans (continued)

### (2) Liability for retirement benefits for the years ended March 31, 2019 and 2018 (continued)

iii) The changes in retirement benefits obligation calculated by simplified method are outlined as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>2019</b>	2018	<b>2019</b>
Retirement benefit obligation at beginning of year	¥ <b>409</b>	¥ 372	\$ <b>3,685</b>
Retirement benefits expenses	<b>41</b>	47	<b>369</b>
Retirement benefits paid	<b>(9)</b>	(10)	<b>(81)</b>
Retirement benefit obligation at end of year	¥ <b>441</b>	¥ 409	\$ <b>3,973</b>

iv) The balance of retirement benefit obligation and plan assets at fair value, liabilities and assets recognized in the consolidated balance sheets are outlined as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>2019</b>	2018	<b>2019</b>
Funded retirement benefit obligation	¥ <b>6,231</b>	¥ 5,756	\$ <b>56,140</b>
Plan assets at fair value	<b>(5,550)</b>	(5,229)	<b>(50,004)</b>
	<b>681</b>	527	<b>6,136</b>
Unfunded retirement benefit obligation	<b>441</b>	409	<b>3,973</b>
Net amount of liabilities and assets recognized in consolidated balance sheets	<b>1,122</b>	936	<b>10,109</b>
Liability for retirement benefits	<b>1,122</b>	936	<b>10,109</b>
Net amount of liabilities and assets recognized in consolidated balance sheets	¥ <b>1,122</b>	¥ 936	\$ <b>10,109</b>

v) The components of retirement benefit expenses for the years ended March 31, 2019 and 2018 are outlined as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>2019</b>	2018	<b>2019</b>
Service cost	¥ <b>257</b>	¥ 277	\$ <b>2,316</b>
Interest cost	<b>48</b>	46	<b>432</b>
Expected return on plan assets	<b>(65)</b>	(68)	<b>(586)</b>
Amortization:			
Actuarial (gain) loss	<b>(10)</b>	43	<b>(90)</b>
Retirement benefit expenses	¥ <b>230</b>	¥ 298	\$ <b>2,072</b>

*ICOM INCORPORATED AND SUBSIDIARIES*

# Notes to Consolidated Financial Statements

## 10. Retirement Benefits Plans (continued)

### (2) Liability for retirement benefits for the years ended March 31, 2019 and 2018 (continued)

- vi) The component of retirement benefit liability adjustments included in other comprehensive income before tax effects are outlined as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>2019</b>	<b>2018</b>	<b>2019</b>
Actuarial (loss) gain	<u>¥ (273)</u>	<u>¥ 309</u>	<u>\$ (2,460)</u>
	<u>¥ (273)</u>	<u>¥ 309</u>	<u>\$ (2,460)</u>

- vii) The balance of retirement benefit liability adjustments recognized in accumulated other comprehensive income before tax effects is outlined as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>2019</b>	<b>2018</b>	<b>2019</b>
Unrecognized actuarial loss	<u>¥ (327)</u>	<u>¥ (54)</u>	<u>\$ (2,946)</u>
Total	<u>¥ (327)</u>	<u>¥ (54)</u>	<u>\$ (2,946)</u>

- viii) The plan assets by major category consist of the following:

	<b>2019</b>	<b>2018</b>
Bonds	<u>67.0%</u>	<u>67.0%</u>
Equities	<u>22.0%</u>	<u>22.0%</u>
Cash and deposits	<u>2.0%</u>	<u>2.0%</u>
Other	<u>9.0%</u>	<u>9.0%</u>
Total	<u>100.0%</u>	<u>100.0%</u>

The expected long-term rate of return on plan assets is determined as a result of consideration of both the portfolio allocation to each class at present and in the future, and long-term expected rate of return from multiple plan assets at present and in the future.

- ix) The assumptions used in accounting for the defined benefit plans for the years ended March 31, 2019 and 2018 are as follows:

	<b>2019</b>	<b>2018</b>
Discount rates	<u>0.8%</u>	<u>0.8%</u>
Expected long-term rates of return on plan assets	<u>1.2%</u>	<u>1.5%</u>
Expected rate of compensation increases	<u>1.5%</u>	<u>1.5%</u>

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# Notes to Consolidated Financial Statements

## 11. Income Taxes

Income taxes applicable to the Company and its domestic subsidiaries comprise corporation, enterprise and inhabitants' taxes which, in the aggregate, resulted in statutory tax rates of approximately 30.6% and 30.8% for the years ended March 31, 2019 and 2018, respectively. The overseas subsidiaries are subject to income taxes of the respective countries in which they operate.

Reconciliations of the statutory tax rates and effective tax rates for the years ended March 31, 2019 and 2018 as a percentage of profit before income taxes are as follows:

	<u>2019</u>	<u>2018</u>
Statutory tax rates	<b>30.6%</b>	30.8%
Non-deductible entertainment expenses and other for income tax purposes	<b>0.6</b>	2.8
Per capita portion of inhabitants' taxes	<b>0.8</b>	2.4
Tax credit for research and development costs	<b>(9.5)</b>	(9.8)
Differences in tax rates applicable to overseas subsidiaries	<b>(0.2)</b>	(0.2)
Income taxes for prior period	<b>(0.4)</b>	0.0
Unrealized loss on inventories	<b>(1.2)</b>	(7.0)
Equity in earnings of affiliates	<b>0.7</b>	0.8
Effect of changes in corporate tax rates	–	0.2
Valuation allowance	<b>0.3</b>	0.7
Effect of Tax Cuts and Jobs Act of 2017 in U.S.	<b>0.7</b>	8.5
Accumulated earnings tax	<b>5.4</b>	–
Other	<b>(0.4)</b>	(0.6)
Effective tax rates	<u><b>27.4%</b></u>	<u>28.6%</u>

The significant components of deferred tax assets and liabilities at March 31, 2019 and 2018 are summarized as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<u>2019</u>	<u>2018</u>	<u>2019</u>
Deferred tax assets:			
Unrealized gain on inventories	¥ 290	¥ 258	\$ 2,613
Long-term accounts payable - other	143	154	1,289
Accrued bonuses	243	134	2,189
Accrued enterprise tax	56	41	505
Deferred revenue	9	11	81
Liability for retirement benefits	341	284	3,072
Allowance for doubtful accounts	18	20	162
Write down of investments in securities	26	26	234
Accrued legal welfare expense on bonuses	37	20	333
Net operating loss carryforward	155	116	1,397
Other	67	95	604
Gross deferred tax assets	<u>1,385</u>	<u>1,159</u>	<u>12,479</u>
Valuation allowance	<u>(71)</u>	<u>(44)</u>	<u>(640)</u>
Total deferred tax assets	<u>1,314</u>	<u>1,115</u>	<u>11,839</u>
Deferred tax liabilities:			
Gain on sales of property, plant and equipment	(150)	(146)	(1,352)
Accumulated earnings tax	(145)	–	(1,306)
Accrued interest	(1)	(1)	(9)
Other	(16)	(46)	(144)
Total deferred tax liabilities	<u>(312)</u>	<u>(193)</u>	<u>(2,811)</u>
Net deferred tax assets	<u>¥ 1,002</u>	<u>¥ 922</u>	<u>\$ 9,028</u>

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# Notes to Consolidated Financial Statements

## 12. Shareholders' Equity

The Companies Act (the "Act") provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account. Such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met.

The Company's legal reserve included in retained earnings at March 31, 2019 and 2018 amounted to ¥293 million (\$2,640 thousand).

In addition, upon the issuance and sale of new shares of capital stock, the entire amount of the proceeds is required to be accounted for as capital stock, although a company may, by resolution of the Board of Directors, account for an amount not exceeding one-half of the proceeds of the sale of new shares as additional paid-in capital included in capital surplus.

Movements in treasury stock for the years ended March 31, 2019 and 2018 are summarized as follows:

		Number of shares		
		2019		
	April 1, 2018	Increase	Decrease	March 31, 2019
Shares issued:				
Common stock	14,850,000	—	—	14,850,000
Treasury stock:				
Common stock	32,543	395	—	32,938
		Number of shares		
		2018		
	April 1, 2017	Increase	Decrease	March 31, 2018
Shares issued:				
Common stock	14,850,000	—	—	14,850,000
Treasury stock:				
Common stock	32,190	353	—	32,543

The increases in treasury stock were due to purchases of shares of less than one voting unit.

## 13. Derivatives and Hedging Activities

The estimated fair value of the derivatives positions outstanding which qualify for hedge accounting at March 31, 2019 is summarized as follows:

Currency-related transactions

Method of hedge accounting	Transaction	Major hedged item	Millions of yen			Thousands of U.S. dollars		
			2019			2019		
			Notional amount	More than one year	Fair value	Notional amount	More than one year	Fair value
Allocation method for forward foreign exchange contracts	Forward foreign exchange contracts							
	Sell: USD	Foreign currency deposits	¥ 781	¥ —	¥ —	\$ 7,036	\$ —	\$ —
	Total		¥ 781	¥ —	¥ —	\$ 7,036	\$ —	\$ —

The forward foreign exchange contracts that qualify for the allocation method and the underlying foreign currency deposits are accounted for as a unit. Therefore, the fair value of the forward foreign exchange contracts is included in cash and deposits.

There were no derivatives positions outstanding which qualify for hedge accounting at March 31, 2018.



*ICOM INCORPORATED AND SUBSIDIARIES*

# Notes to Consolidated Financial Statements

## 14. Research and Development Costs

Research and development costs included in selling, general and administrative expenses for the years ended March 31, 2019 and 2018 are as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>2019</b>	2018	<b>2019</b>
Research and development costs	¥ <b>3,864</b>	¥ 3,412	\$ <b>34,814</b>

## 15. Other Comprehensive Income

Reclassification adjustments and tax effects of other comprehensive income for the years ended March 31, 2019 and 2018 are as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>2019</b>	2018	<b>2019</b>
Net unrealized holding (loss) gain on securities:			
Amount arising during the year	¥ <b>(102)</b>	¥ 120	\$ <b>(919)</b>
Reclassification adjustments	<b>(0)</b>	(2)	<b>(0)</b>
Before tax effects	<b>(102)</b>	118	<b>(919)</b>
Tax effects	<b>31</b>	(36)	<b>279</b>
Net unrealized holding (loss) gain on securities	<b>(71)</b>	82	<b>(640)</b>
Translation adjustments:			
Amount arising during the year	<b>42</b>	(193)	<b>379</b>
Retirement benefit liability adjustments:			
Amount arising during the year	<b>(263)</b>	266	<b>(2,370)</b>
Reclassification adjustments	<b>(10)</b>	43	<b>(90)</b>
Before tax effects	<b>(273)</b>	309	<b>(2,460)</b>
Tax effects	<b>83</b>	(95)	<b>748</b>
Retirement benefit liability adjustments	<b>(190)</b>	214	<b>(1,712)</b>
Total other comprehensive (loss) income	¥ <b>(219)</b>	¥ 103	\$ <b>(1,973)</b>

## 16. Amounts Per Share

Amounts per share at March 31, 2019 and 2018 and for the years then ended are as follows:

	<i>Yen</i>		<i>U.S. dollars</i>
	<b>2019</b>	2018	<b>2019</b>
Net assets	¥ <b>3,732.50</b>	¥ 3,654.65	\$ <b>33.63</b>
Profit attributable to owners of parent:			
Basic	<b>132.57</b>	42.26	<b>1.19</b>
Cash dividends	<b>45.00</b>	30.00	<b>0.41</b>

Net assets per share is computed based on net assets and the number of shares of common stock outstanding at the respective year end.

Basic profit attributable to owners of parent per share is computed based on the profit attributable to owners of parent available for distribution to shareholders of common stock and the weighted-average number of shares of common stock outstanding during each year. Cash dividends per share represent the cash dividends declared as applicable to the respective fiscal years.

*ICOM INCORPORATED AND SUBSIDIARIES*

# Notes to Consolidated Financial Statements

## 17. Segment Information

### i) Outline of segment information

The Group's reporting segments are divisions of the Group for which separate financial information is available, and whose operating results are reviewed regularly by the board of directors meeting of the Group (the highest management decision making body) in order to allocate management resources and assess performance of operations.

The Group are primarily engaged in the manufacture and sale of telecommunications equipment. The subsidiaries are independent business units and formulate comprehensive strategies for products and operate business geographically.

Therefore, the Group consists of four segments based on sales by region. The four segments are "Japan," "North America," which primarily includes the United States and Canada; "Europe," which primarily includes Germany and Spain; and "Asia & Oceania," which primarily includes Australia, Taiwan and China.

### ii) Calculation methods used for sales, income or loss, assets and other items on each reporting segment

The accounting policies of the segments are substantially the same as those described in the significant accounting policies in Note 2. Segment performance is evaluated based on operating income or loss. Intersegment sales are recorded at the same prices applied in transactions with third parties.

### iii) Information as to sales, income or loss, assets and other items on each reporting segment

Information by reporting segment for the years ended March 31, 2019 and 2018 are as follows:

<i>Millions of yen</i>							
<b>2019</b>							
	Japan	North America	Europe	Asia & Oceania	Subtotal	Eliminations	Consolidated
I. Net sales and operating income							
Sales to third parties	¥ 19,566	¥ 7,971	¥ 1,207	¥ 956	¥ 29,700	¥ –	¥ 29,700
Intersegment sales	7,334	2	1	536	7,873	(7,873)	–
Net sales	26,900	7,973	1,208	1,492	37,573	(7,873)	29,700
Operating expenses	24,583	7,899	1,149	1,399	35,030	(7,773)	27,257
Operating income	¥ 2,317	¥ 74	¥ 59	¥ 93	¥ 2,543	¥ (100)	¥ 2,443
II. Total assets	¥ 54,975	¥ 6,191	¥ 859	¥ 1,865	¥ 63,890	¥ (2,827)	¥ 61,063
III. Other items							
Depreciation and amortization	¥ 921	¥ 87	¥ 3	¥ 10	¥ 1,021	¥ –	¥ 1,021
Investments in affiliates	132	–	–	–	132	–	132
Increase in property, plant and equipment / intangible assets	1,518	36	3	1	1,558	–	1,558

*ICOM INCORPORATED AND SUBSIDIARIES*

# Notes to Consolidated Financial Statements

## 17. Segment Information (continued)

### iii) Information as to sales, profit or loss, assets and other items on each reporting segment (continued)

<i>Millions of yen</i>								
2018								
	Japan	North America	Europe	Asia & Oceania	Subtotal	Eliminations	Consolidated	
I. Net sales and operating income (loss)								
Sales to third parties	¥ 14,746	¥ 7,867	¥ 1,235	¥ 1,033	¥ 24,881	¥ –	¥ 24,881	
Intersegment sales	7,012	5	0	412	7,429	(7,429)	–	
Net sales	21,758	7,872	1,235	1,445	32,310	(7,429)	24,881	
Operating expenses	20,863	7,899	1,164	1,384	31,310	(7,220)	24,090	
Operating income (loss)	¥ 895	¥ (27)	¥ 71	¥ 61	¥ 1,000	¥ (209)	¥ 791	
II. Total assets	¥ 53,128	¥ 5,675	¥ 924	¥ 1,866	¥ 61,593	¥ (2,389)	¥ 59,204	
III. Other Items								
Depreciation and amortization	¥ 821	¥ 100	¥ 4	¥ 10	¥ 935	¥ –	¥ 935	
Investments in affiliates	74	–	–	–	74	–	74	
Increase in property, plant and equipment / intangible assets	651	27	2	6	686	–	686	

<i>Thousands of U.S. dollars</i>								
2019								
	Japan	North America	Europe	Asia & Oceania	Subtotal	Eliminations	Consolidated	
I. Net sales and operating income								
Sales to third parties	\$ 176,286	\$ 71,818	\$ 10,875	\$ 8,613	\$ 267,592	\$ –	\$ 267,592	
Intersegment sales	66,078	18	9	4,829	70,934	(70,934)	–	
Net sales	242,364	71,836	10,884	13,442	338,526	(70,934)	267,592	
Operating expenses	221,488	71,169	10,352	12,605	315,614	(70,033)	245,581	
Operating income	\$ 20,876	\$ 667	\$ 532	\$ 837	\$ 22,912	\$ (901)	\$ 22,011	
II. Total assets	\$ 495,315	\$ 55,780	\$ 7,740	\$ 16,803	\$ 575,638	\$ (25,471)	\$ 550,167	
III. Other items								
Depreciation and amortization	\$ 8,298	\$ 784	\$ 27	\$ 90	\$ 9,199	\$ –	\$ 9,199	
Investments in affiliates	1,189	–	–	–	1,189	–	1,189	
Increase in property, plant and equipment / intangible assets	13,677	324	27	9	14,037	–	14,037	

*ICOM INCORPORATED AND SUBSIDIARIES*

# Notes to Consolidated Financial Statements

## 17. Segment Information (continued)

### iv) Geographical information

#### (a) Sales

Sales categorized by country and region based on locations of customers by the Group for the years ended March 31, 2019 and 2018 were summarized as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>2019</b>	2018	<b>2019</b>
Japan	¥ <b>13,371</b>	¥ 8,059	\$ <b>120,470</b>
USA	<b>6,040</b>	5,816	<b>54,419</b>
North America (except for the USA)	<b>1,342</b>	1,338	<b>12,091</b>
Europe	<b>3,743</b>	3,969	<b>33,724</b>
Asia & Oceania	<b>4,639</b>	4,904	<b>41,797</b>
Other	<b>565</b>	795	<b>5,091</b>
Total	¥ <b>29,700</b>	¥ 24,881	\$ <b>267,592</b>

#### (b) Property, plant and equipment

Property, plant and equipment categorized by country and region at March 31, 2019 and 2018 were summarized as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>2019</b>	2018	<b>2019</b>
Japan	¥ <b>6,329</b>	¥ 5,887	\$ <b>57,023</b>
USA	<b>1,105</b>	1,097	<b>9,956</b>
North America (except for the USA)	<b>9</b>	10	<b>81</b>
Europe	<b>6</b>	7	<b>54</b>
Asia & Oceania	<b>148</b>	160	<b>1,334</b>
Total	¥ <b>7,597</b>	¥ 7,161	\$ <b>68,448</b>

Disclosure of the information by product and service for the years ended March 31, 2019 and 2018 has been omitted as sales of products and services to external customers in a single segment account for more than 90% of net sales in the consolidated statement of income.

#### (C) Information on Major Customers

Information on major customers for the year ended March 31, 2019 was summarized as follows:

Major customer	Related segment	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
		<b>2019</b>	2018	<b>2019</b>
National Police Agency	Japan	¥ <b>3,840</b>	¥ —	\$ <b>34,598</b>

Disclosure of the information by major customer for the year ended March 31, 2018 has been omitted as sales to each customer were less than 10% of consolidated net sales.

*ICOM INCORPORATED AND SUBSIDIARIES*

# Notes to Consolidated Financial Statements

## 18. Subsequent Event

The following distribution of retained earnings of the Company, which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2019, was approved at the Company's general shareholders' meeting held on June 25, 2019:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
	<b>2019</b>	<b>2019</b>
Cash dividends (¥25 = U.S.\$0.23 per share)	¥ <b>370</b>	\$ <b>3,334</b>

## Independent Auditor's Report

The Board of Directors  
ICOM INCORPORATED

We have audited the accompanying consolidated financial statements of ICOM INCORPORATED and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2019, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ICOM INCORPORATED and its consolidated subsidiaries as at March 31, 2019, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

### *Convenience Translation*

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 1.

*Ernst & Young ShinNihon LLC*

June 25, 2019  
Osaka, Japan

## **BOARD OF DIRECTORS AND AUDITORS**

### **Tokuzo Inoue**

*Chairman and Representative Director*

### **Masataka Harima**

*President and Representative Director*

### **Nobuo Ogawa**

*Executive Managing Director*

### **Hiroshi Shimizu**

*Director*

### **Kenichi Kojiyama**

*Director*

### **Haruyuki Yoshizawa**

*Outside Director*

### **Akifumi Honda**

*Outside Director*

### **Toshihiko Sano**

*Auditor*

### **Hiroshi Umemoto**

*Outside Auditor*

### **Katsunori Sugimoto**

*Outside Auditor*

## **EXECUTIVE OFFICERS**

### **Hiroshi Nakaoka**

### **Takashi Tsujiuchi**

### **Shinichi Matsuo**

### **Shigeyoshi Tanabe**

### **Yoshiteru Yano**

### **Yoshiki Enomoto**

### **Shu Kitaguchi**

### **Kenichi Noda**

## **SUBSIDIARIES**

Icom America, Inc.

Icom (Europe) GmbH

Icom (Australia) Pty., Ltd.

Icom Spain, S.L.

Asia Icom Inc.

PURECOM CO., LTD

Wakayama Icom Inc.

Icom Information Products Inc.

Icom America License Holding LLC

ICOM CANADA HOLDINGS INC.

ICOM DO BRASIL

RADIOCOMUNICACAO LTDA.

## **AFFILIATES**

Comforce Inc.

Position Co., Ltd.

## **HEAD OFFICE DIRECTORY**

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Fax: 81-6-6793-5305

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## **TRANSFER AGENT**

Mitsubishi UFJ Trust and Banking  
Corporation

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Chiyoda-ku, Tokyo 100-8212, Japan

Osaka Office:

6-3, Fushimimachi 3-chome

Chuo-ku, Osaka, 541-0044, Japan

## **INVESTOR RELATIONS**

### **Keiichi Uehata**

General Manager of Business

Management Department

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Osaka, 547-0003, Japan

Phone: 81-6-6793-5301

Fax: 81-6-6793-5305

## **CORPORATE FACTS**

(As of March 31, 2019)

Established: July 1964

Employees: 624

Paid-in capital: ¥7,081 million

Authorized shares: 34,000,000

Issued and outstanding shares:

14,850,000

Shareholders: 10,187

Stock listing: Tokyo Stock Exchange

(As of March 31, 2019)

<b>Major shareholders</b>	<b>Thousands of shares</b>
Tokuzo Inoue	1,868
Gigapalace Inc.	1,472
SSBTC CLIENT OMNIBUS ACCOUNT	1,166
The Icom Foundation	1,000
The Master Trust Bank of Japan, Ltd.	628
JVC KENWOOD Corporation	445
Meiji Yasuda Life Insurance Company	326
GOLDMAN, SACHS & CO. REG,	259
MUFG Bank, Ltd.	243
The Hiroshima Bank, Ltd.	240